

**SUBJECT: ADDRESSING THE LOCAL AUDIT BACKLOG IN ENGLAND**

**REPORT BY: CHIEF EXECUTIVE & TOWN CLERK**

**LEAD OFFICER: JACLYN GIBSON, CHIEF FINANCE OFFICER**

## **1. Purpose of Report**

- 1.1 To provide the Audit Committee with a summary of the recent consultation undertaken by the Department for Levelling Up, Housing and Communities (DLUHC) for addressing the Local Audit Backlog in England.

## **2. Background**

- 2.1 Local audit is both a vital and independent source of assurance and a key element of the checks and balances within the local accountability framework.
- 2.2 The issues facing local audit are widely recognised as multi-faceted and complex. They also impact different sectors, not just local government. It is widely recognised that audits have become more challenging in a changing regulatory environment. In addition, pressures on the system were compounded during the COVID-19 pandemic.
- 2.3 In July 2023, the Minister for Local Government published a cross system statement setting out proposals to tackle the local audit backlog. Since then, organisations involved in the regulation and oversight of local body financial reporting and audit (“system partners”) have been working collectively to agree a proposed solution to clear the outstanding historical audit opinions and ensure that delays do not return.
- 2.4 On 8 February 2024, DLUHC issued a consultation and joint statement on proposals to clear the audit backlog for English councils. The joint statement included recommendations from DLUHC, the Financial Reporting Council (FRC), the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW), and the Public Sector Audit Appointments (PSAA). At the time of preparing this report, the outcome of the consultation is still awaited.
- 2.5 As a reminder, the audit of the Council's Statement of Accounts, for 2021/22 and 2022/23, was concluded in December 2023.

## **3. Addressing the Local Audit Backlog**

- 3.1 To clear the backlog of historical accounts and ‘reset’ the system, DLUHC propose to implement a series of dates in law (the “backstop date”) by which point local bodies would publish audited accounts for all outstanding years.
- 3.2 The package of measures proposed comprises of the following:

- DLUHC's amendments to the Accounts and Audit Regulations including a joint statement providing context and explanation of the proposals and how their various elements are intended to interact;
- NAO amendments the Code of Audit Practice;
- CIPFA LASAAC temporary changes to the Accounting Code to reduce burdens on those who prepare and audit local body accounts.

### 3.3 The proposed measures consist of three phases:

- Phase 1: Reset - legislating for a statutory backstop date for the publication of audited financial statements up to and including financial year 2022/23. Auditors should issue opinions based on the work they have completed by the backstop date – which may lead to a modified or qualified opinion – and are expected to prioritise to ensure that their audit work provides as much assurance as possible ahead of the date;
- Phase 2: Recovery- a series of statutory backstop dates covering the financial years 2023/24 to 2027/28 to allow auditors to rebuild assurance over a five-year period of local bodies' financial information, which has been subject to modified opinion as part of the reset. To reduce burdens on preparers and auditors, CIPFA will make temporary changes to the Code of practice on Local Authority Reporting;
- Phase 3: Reform - the FRC, alongside DLUHC and other system partners, will continue to work to address systemic challenges in the local audit system and embed timely financial reporting and audit.

### 3.4 Phase 1: Reset

The key elements within this phase are as follows:

- The backstop dates will be deadlines by which authorities must publish audited accounts, and auditors would be required to issue an opinion based on the work they have been able to complete to enable authorities to meet the publication deadline. The date for accounts up to 2022/23 is 30 September 2024.
- Auditors will be required to publish an opinion based on completed work as at the backstop date and this opinion can be either unmodified, modified (qualified or adverse) or disclaimed.
- System partners will provide clear explanations of what the different types of audit opinions mean, especially to clarify that modified/disclaimed opinions attributable to the backstop date do not necessarily indicate significant financial reporting or financial management issues in the audited body.
- Reporting on VFM arrangements will remain a high priority, focussing on enabling auditors to produce a single commentary on VFM arrangements covering all outstanding periods for 2022/23 and earlier years.
- There are expected to very limited exemptions (if any) for either authorities or auditors.

- The Government indicate an intention to publish a list of local bodies and their auditors which do not meet the backstop date.

3.5 There do not appear to be any minimum expectations for the work that auditors would need to carry out at individual authorities, so that there would be a minimum level of assurance provided by the auditor. The Joint Statement promises an expectation that auditors will complete as much audit work as possible by the backstop date. The promise is also made that the NAO, working with the FRC, will produce statutory guidance and any additional advice needed to ensure the reset works as intended.

### 3.6 Phase 2: Recovery

The acknowledged problem of the Reset phase is that for, authorities impacted by the backstop, auditors will not have the assurance from closing balances that would normally support opening balances for 2023/24. Auditors will therefore need to perform sufficient testing on opening balances to rebuild assurance.

3.7 To prevent this recovery work causing delays to future audits, further backstop dates for all years up to and including 2027/28, in consideration that recovery work may take a number of years as modified opinions/disclaimers are rolled forward. The backstop dates within the Recovery phase are as follows:

<b>Financial Year</b>	<b>Publication Date</b>
2023/24	31 May 2025
2024/25	31 March 2026
2025/26	31 January 2027
2026/27	30 November 2027
2027/28	30 November 2028

3.8 For Value for Money (VFM) the Audit Code will identify that auditor's Annual Report is issued in draft to those charged with governance by 30 November each year (from 2023/24 onwards), irrespective of the position on the audit. This will enable auditors to report the majority of the VFM arrangements work on a timely basis.

### 3.9 Phase 3: Reform

At this stage there are no firm proposals put forward for Phase 3, but commitments are made in the following areas:

- The government remains committed to establishing the Audit, Reporting and Governance Authority as system leader for local audit when Parliamentary time allows;
- CIPFA LASAAC's has a workstream looking at long-term reforms to financial reporting based on the needs of accounts users;
- HM Treasury will shortly be setting out the outcome of the thematic review into the valuation of non-investment assets;
- the FRC intends to publish its Local Audit Workforce Strategy during 2024, including plans to increase the supply of suitably skilled auditors, including changes to Key Audit Partner requirements;
- the government has successfully procured the development of a Local Audit Qualification which will shortly be launched by CIPFA;

- CIPFA and the Local Government Association are working on a workforce strategy for local government finance teams.

### 3.10 Current position

As a result of the General Election being called, it is now unlikely that a statutory publication deadline for any outstanding audits will be in place before the first deadline of 30 September 2024.

- 3.11 The National Audit Office have recently issued a supplementary guidance note, stating that proposed changes to the code of audit practice, such as the introductions of statutory public deadlines for accounts cannot be processed until a new Parliament is formed. The guidance note stated that "until the new government has a policy position on the future of local audit in England it is not possible to provide any further clarity to auditors on next steps. It then went on to state that "auditors should continue to follow the current code of audit practice. Where auditors are planning to complete audits, they should continue to make every effort to do so and as soon as possible".

## 4. **Implications for the Council**

- 4.1 At this stage the Council is in a more favourable position compared to many other authorities as all financial accounts up to and including 2022/23 have been completed by external audit and it has received a positive value for money statement up to 2022/23. As such the Council is not affected by any of the measures to be implemented as part of phase 1.
- 4.2 In relation to phase 2, there could be implications for the Council for the 2023/24 statement of accounts onwards. At this stage the draft Audit Plan issued by KPMG proposes that the audit for 2023/24 will be completed by September 2024. This could however change once the audit commences.

## 5. **Strategic Priorities**

- 5.1 There are no direct implications for the Council's strategic priorities. The external audit of the Council's financial statements and VFM conclusion is a statutory requirement and as such contributes towards the fitness for purpose of the Council's governance arrangements.

## 6. **Organisational Impacts**

- 6.1 Finance – There are no direct financial implications arising as a result of this report. The external audit process provides an independent source of assurance and form a key element of the checks and balances within the local accountability framework. Part of the role of the external auditor is to provide an assessment of the arrangements that a local authority has put in place to secure economy, efficiency and effectiveness in its use.
- 6.2 Legal including Procurement Rules - The addressing the local audit backlog in England: consultation proposals seek to amend the Accounts and Audit (England) Regulations 2015, via a series of dates (the "backstop date") by which point local bodies would publish audited accounts for all outstanding years.

## 6.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

Due to the nature of this report there are no direct equality, diversity or human rights implications,

## 7. Risk Implications

7.1 There are no direct risk implications arising as a result of this report.

## 8. Recommendation

8.1 Audit Committee are asked to note the Addressing the Local Audit Backlog in England consultation and the potential implications for the Council.

**Is this a key decision?** No

**Do the exempt information categories apply?** No

**Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?** No

**How many appendices does the report contain?** None

**List of Background Papers:** None

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